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Outline Of Reference Paper On:

THE ABOLITION OF THE SALARY TAX IN THE USSR: A PROPAGANDA STEP

by

E. Glovinsky

The author is a professor and department head at the Ukrainian Polytechnical School and a professor at the Ukrainian Free University in Munich. Professor Glovinsky worked for many years in the Ukrainian Scientific Institute in Warsaw and is the author of numerous works on Soviet economy.

The law abolishing the income tax of salaried workers and the bachelor tax has greater propaganda than practical significance. The measure has been hailed by a Soviet newspaper as "proof of the invincible vital force of socialism."

However, a look beneath the surface glitter reveals that the practical benefits the worker will derive from the law are not at all commensurate with the propaganda accompanying it. The Soviet tax reform calls for the abolition of salary tax with no strings attached on incomes up to 1,000 rubles per month only. Above that level the abolition will be accompanied by a reduction in pay. In the below-1,000-ruble range, the increase in the worker's salary will be slight because of the low salary tax rate in that category. The same holds true for the bachelor tax.

In reality, the whole population of the USSR pays the state a huge tax in the form of steep prices for consumer goods. Between 40 and 50 per cent of the Soviet national revenue is provided by this, the turnover tax. The level of the tax is set either as a percentage of the wholesale price or as an arbitrary figure. The slight gain expected from the tax reform becomes questionable in view of the fact that the turnover tax can be raised according to the state need. The tax reform has underscored the need of the Soviet leaders for popular support of their inadequate economic policies.

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The law abolishing the salary tax of workers and employees, which was passed by the Supreme Soviet of the USSR on May 7, has greater propaganda than practical significance in a country where taxes can be levied by means of arbitrarily fixing prices for consumer goods. The noise made by the Soviet propaganda machine,which accompanied this insignificant concession, serves as an example of the shrewd publicity used to promote the Soviet social and economic system.

"Where in any capitalist country could a bourgeois parliament take a similar step?" asked Pravda on May 10. "Clear proof of the invincible vital force of socialism and its indisputable economic and social superiority over capitalism," was seen in the law by Izvestia on May 7.

Khrushchev's address at the session of the Supreme Soviet, his speech at a meeting in East Berlin on May 20, the speeches of individual deputies at the Supreme Soviet session and numerous articles in the Soviet press stressed that the law was of tremendous historical importance, that the age-old dream of all workers was being realized and that new horizons were being opened for the construction of Communism while workers in capitalist countries continued to groan beneath an ever-increasing tax burden.

However, the sound and the fury over the forthcoming reform are not likely to give an accurate picture. In a fiscal measure, it is the figures that count.

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In considering the reform, it should be borne in mind that almost all workers in the Soviet Union are paid directly by the state or through state economic organizations. The state may tax a worker's salary simply by cutting it, the result being the same as in the case of a tax levy.

The Soviet measure calls for the abolition of income tax with no strings attached on wages and salaries only up to 1,000 rubles per month. Above that level the abolition of the tax will be accompanied by a reduction in pay. The reduction will be scaled as follows:

1,001--1,200 rubles: the reduction will amount to an average of 21 per cent of the tax now paid;

1,201--1,400 rubles: an average of 54 per cent of the tax now paid;

1,401--1,600 rubles: an average of 71 per cent of the tax now paid;

1,601--1,800 rubles: an average of 85 per cent of the tax now paid;

1,801--2,000 rubles: an average of 90 per cent of the tax now paid.

Wages and salaries exceeding 2,000 rubles per month will be reduced by a sum equal to the total tax now paid.

Since the tax paid by the majority of workers is not high, the increase in their real earning will be correspondingly slight. The income tax deducted from a salary not exceeding 1,000 rubles per month is calculated with a sliding-scale system and amounts to 4.5 per cent on a salary of 400 rubles and 8.2 per cent on one of 1,000 rubles. Salaries in excess of 1,000 rubles per month are taxed at a rate of 13 per cent. The maximum salary free of tax is 370 rubles, but in the case of lower-paid workers earning up to 450 rubles per month the tax is levied with a variable rebate ranging from 80 per cent on earnings of 371-80 rubles per month to five per cent on earnings between 441 and 450 rubles per month.

In addition, the tax levied on bachelors is also to be abolished, but its low rate (6 per cent of taxable income) will make the reduction insignificant for the real earnings of lower-paid workers.

The abolition of the salary tax and the bachelor tax will have little significance also for the state budget. Soviet sources, including the annual state budget of the USSR, list the revenue from the two taxes under the general heading of "state tax on the population." The other components of the state tax include the agricultural tax, the tax on owners of livestock in towns, and the tax on horses belonging to one-man farms. They will all remain in force.

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Abolition of the salary tax will apply only to workers and citizens in such categories as writers, workers in the arts, students, military personnel, craftsmen and tradesmen in cooperative undertakings. There will be no abolition of the tax levied on incomes of persons earning their livelihood from private practice, such as doctors, lawyers, and teachers; persons renting housing accomodations; and craftsmen and tradesmen operating outside cooperatives. Of course the number of such persons in the USSR is not great. The tax rates levied upon them are considerably higher than those levied on salary workers (from 2.5 to 69 per cent on those in private practice and from 4 to 81 per cent on the others). Revenue from all the state taxes provides only seven to eight per cent of the total revenue of the country (8.6 per cent in 1956 and an estimated 7.4 per cent in 1960). Thus the abolition of the two taxes, which comprise a part of the state revenue, can have little perceptible effect on the Soviet budget.

Further, the assertion of Soviet leaders that after 1965 workers in the Soviet Union will not be paying any taxes at all is a deliberate distortion of the real state of affairs. The whole population of the Soviet Union pays the state huge taxes in the form of disproportionately high prices for consumer goods.. Between 40 and 50 per cent of the Soviet national revenue is provided by the turnover tax and a further 20-25 per cent drops into the till as deductions from the profits of economic enterprises.

The turnover tax-- concealed and very heavy-- is applied to practically all consumer goods. The level of the tax is set either as a percentage of the wholesale price or as a definite figure. Some idea of its high level may be gained from the following examples, for which the tax is shown as a percentage of the retail price: potatoes, 40-62 per cent; meat, 50-70 per cent; vodka, 84 per cent; tobacco, 75-88 per cent; textiles, 75 per cent; fish, 35-57 per cent; butter, 60-66 per cent; sugar, 73 per cent. *

Despite the evidence, the Soviet leaders deny that the turnover tax is a tax. The following definition may be found in Soviet financial literature:

> The turnover tax is a part of the surplus product created in a socialist economy, which is incorporated to a certain extent in the price of goods and is put at the direct disposal of the state in the budget. (A. Suchkov, Ya. Svidersky and V. Payevsky, Gosudarstvennye Dokhody SSSR (State Revenue in the USSR), Moscow, 1958, p. 29).

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* Naum Jasny, The Soviet Price System, Stanford, Calif., 1951, pp. 164-67; Franklyn D. Holzman, Soviet Taxation; The Fiscal and Monetary Problems of a Planned Economy, Cambridge, Mass., 1955, pp. 144-45.

However, the "surplus product" does not create itself in the process of "socialist" production but is determined by the Soviet state. If the state adds a turnover tax to the price of an article, it effectively thereby reduces the real income of the population. The turnover tax is a disproportionate appropriation of a part of his income for the benefit of the state and in this respect differs in no way from any other tax, including an income tax. The fact that the entities that pay the taxes are state enterprises is of no great importance, for it is the population of the Soviet Union which in reality bears the burden by having to pay a very heavy and unequal tax as part of the price of goods. This was the view taken by such notable Soviet financial experts as L. Yurovsky, P. Genzel, D. Bogolepov, V. Sokolov and T. Mikeladze in 1930, when the tax reform replaced the existing duties by introducing the turnover tax. The names of these experts later disappeared from the pages of Soviet financial literature. Their view is today endorsed not only in the Western European scientific literature but also by practicing financial experts in the Soviet Union itself: "... Many practicing economists regard the turnover tax as a universal excise (A. Smirnov, "Certain Aspects of the Economic Basis of the Turnover Tax," Finansy SSSR. No. 2, 1959, p. 37).

The deductions from profits, which make up the second major source of revenue in the USSR, are also in the nature of taxation. The margin of profit is set by the Soviet state, which, having a monopoly, can set this margin as it thinks fit.

No modern state can get along without taxes. A part of the income of the population must be appropriated to meet general state requirements. The Soviet state is no exception. Because it is the sole producer and employer, its taxation system may be constructed differently from the countries with a free-market economy. However, the tax burden in the USSR is higher than in many other countries. The present vast program of capital investment in the country's economy, the constant arms race, and a very low level of productivity compared with many countries of the free world, do not permit the Soviet leaders to relax the exploitation of their citizens. As a result the standard of living of Soviet workers and employees is considerably lower than in the leading Western European countries or the United States, and the abolition of the income tax for workers will do nothing to change the situation.

The propaganda campaign which the Soviet leaders have launched in conjunction with this insignificant concession merely stresses the low living standard of the Soviet people and reveals itself as a device used by the Soviet leaders to enlist the necessary popular support.

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